Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

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PAGE 01 VIENTI 00515 040802Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 PM-05 H-01 L-03 PA-01
INT-05 /118 W
----------015749 041204Z /72
R 030915Z MAY 78
FM AMEMBASSY VIENTIANE
TO SECSTATE WASHDC 9236
INFO AMEMBASSY BANGKOK
AMEMBASSY PARIS
AMEMBASSY TOKYO
CINCPAC

C O N F I D E N T I A L VIENTIANE 0515

CINCPAC FOR POLAD

E.O. 11652: GDS
TAGS: EALR, EINV, EPAP, ETRD, LA, JA
SUBJECT: DOING BUSINESS IN LAOS

REF: VIENTIANE 132

1. THE REFTEL OUTLINED THE DIFFICULTIES LAO OTSUKA, A JAPANESE LOGGING FIRM, WAS HAVING AS A RESULT OF THE LAO GOVERNMENT'S CANCELLATION OF THE COMPANY'S LOGGING CONCESSION. THE LAO FELT THAT THERE WAS TOO GREAT A MARKUP BETWEEN THE $85 A CUBIC METER THEY WERE TO RECEIVE FROM OTSUKA AND THE $200 A METER OTSUKA WOULD RECEIVE WHEN THE TIMBER WAS SOLD IN JAPAN. OTSUKA CLAIMED THAT THEY HAD TO COVER OPERATIONAL COSTS (SITE PREPARATION, CUTTING, CHIPPING, ETC.(AND EARN A REASONABLE RATE OF RETURN ON INVESTMENT. THE LAO CLAIMED THEY WERE BEING CHEATED AND SHUT OTSUKA DOWN. RESULTORY EFFORTS TO RENEGOTIATE THE LOGGING CONTRACT HAVE
CONFIDENTIAL

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PAGE 02 VIENTI 00515 040802Z

CONTINUED FOR THE PAST FOUR MONTHS.

2. WE NOW FIND OUT FROM TWO SEPARATE SOURCES THAT WHEN THE LAO SHUT DOWN OTSUKA, THEY ALSO STOPPED ALL WOOD EXPORTS FROM LAOS IN WHATEVER FORM. THIS HAS HAD A PARTICULARLY SERIOUS EFFECT ON LAO WOOD INDUSTRIES, LTD., A JAPANESE-THAI-LAO FIRM MAKING LOW

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COFFEE TABLES FOR EXPORT TO JAPAN. LAO WOOD INDUSTRIES HAS MADE NO SHIPMENTS SINCE FEBRUARY, AND OUR SOURCES INDICATE THAT THEY HAVE TOLD THE LAO THAT UNLESS THE EXPORT BAN IS LIFTED THIS WEEK, THE COMPANY WILL HAVE TO CLOSE DOWN AND LAY OFF ALL ITS WORKERS.

3. OUR SOURCES INTIMATE THAT THE LAO MAY NOT ONLY HAVE SPECIFIC PROBLEMS WITH RESPECT TO TIMBER EXPORTS, BUT MAY ALSO BE MOVING TOWARD A TAKEOVER OF ALL EXPORT TRADE FROM LAOS.

4. COMMENT: IN ACTUAL PRACTICE, LAO "TAKEOVERS" HAVE NOT BEEN PARTICULARLY ONEROUS AFFAIRS ONCE THEY HAVE BEEN WORKED OUT. FOR EXAMPLE, THE LAO GOVERNMENT RECENTLY "TOOK OVER" THE FREIGHT FORWARDING BUSINESS INVOLVED IN SHIPMENTS MADE BY FOREIGN EMBASSIEES. IN

PRACTICE THIS HAS MEANT THAT WE AND OUR DIPLOMATIC COLLEAGUES HAVE CONTINUED TO DEAL WITH PRIVATE FREIGHT FORWARDING FIRMS, WHO IN TURN ARE ONLY EXPECTED TO PAY APPROPRIATE FEES TO THE LAO GOVERNMENT OFFICES WHICH HAVE "TAKEN OVER" THEIR BUSINESS. SINCE THERE IS NO TAXATION SYSTEM OF ANY KIND IN THE LPDR, THE FEES IN EFFECT AMOUNT TO A CONFUSED BUT RELATIVELY LIGHT TAX.

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5. THE MAJOR DIFFICULTY IN DOING BUSINESS IN LAOS ARISES FROM THE CONFUSION AND DELAYS WHILE CONTRACTS ARE RENEGOTIATED, CONCESSIONS ALTERED, AND "TAKEOVERS" WORKED OUT. THE NET RESULT IS THAT BUSINESS IS DISCOURAGED AND THE LPDR IS THE ULTIMATE AND MOST SERIOUS LOSER.
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EO Systematic Review
20 Mar 2014
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